

Omni-channel retail

A Deloitte Point of View



Contents

Introduction.....	3
The e-commerce market continues to grow exponentially	4
Omni-channel retailing provides new opportunities	6
Three areas of high attention	7
Increased marketing effectiveness through omni-channel marketing	8
Need for convenient and secure payment solutions	12
Right payment solutions key to sales and profitability	14
The supply chain is changing the game	15
Customer-driven delivery and return strategies	16
A robust order management system for seamless channel integration ...	18
Generous return policies give happy customers but higher costs	19
Successful e-commerce demands customer-driven supply chains.....	20
Become the leader of tomorrow	21
Benchmarks	22
Contacts	23

Introduction

Welcome to the 2015 edition of the Deloitte e-commerce Point of View. Here, we present the most recent developments in the online marketplace, and more importantly, we discuss their impact on organizations in the marketplace. Lastly, our Point of View discusses options and solutions that organizations can take to position themselves as a future leader in the marketplace.

Savvy consumers are becoming increasingly fastidious and expect a tailored, personal shopping experience. Modern day consumers expect to be able to shop anywhere, at any time, and from any location. On top of that, consumers are thorough in searching for the right price and expect multiple, flexible delivery options. Consumers in 2015 demand that the desired product is available, in the right size and color, at the time of the purchase. Retailers are expected to meet these demands – regardless of the channel the consumer is using. Leading retailers in 2015 are also expected to be able to offer comprehensive product information, product reviews, and inventory visibility and availability. In other words; if you are not meeting these expectations business development should be your top priority in order not to lose market share.

This is changing the shopping scene that we are all accustomed to. Consumers, retailers and e-tailers are all playing their part in the move towards omni-channel retail. Mobile shoppers are not excluding the in-store experience, nor are bricks-and-mortar customers neglecting to use their tablet or mobile device to compare prices, product offerings, and purchasing terms. If consumers are moving around and across various channels, so should retailers – a single-channel world is no longer sufficient. Retailers should review their omni-channel strategies to stay ahead. Technological advancements are becoming key components to win new customers so retailers should review their omni-channel strategy to stay ahead.

2014 has also taught us some important lessons. Retailers must strive to create coherent, integrated organizations, front-end solutions, and delivery models around their various product segments and channels. Consumers are shopping across product segments and demand a consistent shopping experience with one consolidated delivery, regardless of the channel through which the order is placed. Retailers that do not adapt to the changing shopping marketplace risk falling behind.

Kind regards,



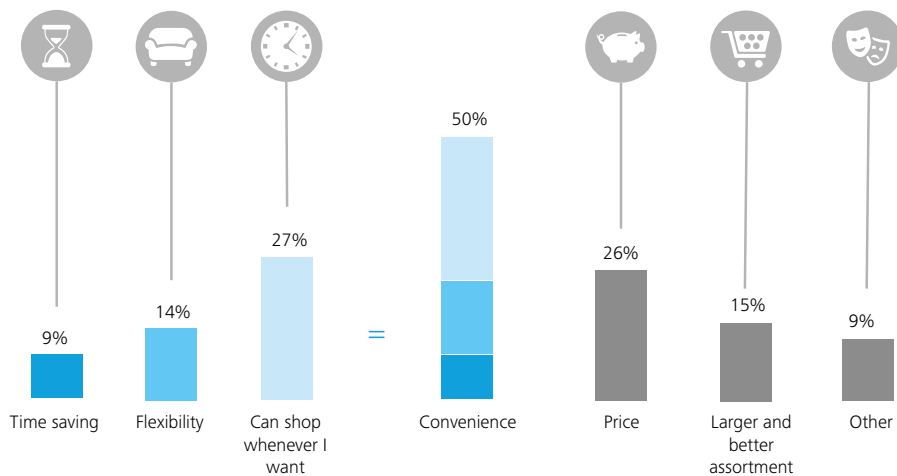
Conny Ternstrand

Head of Deloitte's Strategy & Operations practice in Sweden

The e-commerce market continues to grow exponentially

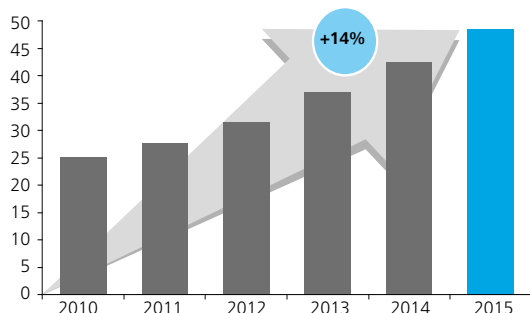
E-commerce is growing year by year with more and more people opting for the convenience of online shopping. In Sweden online shopping is estimated to have grown almost 15 percent from 2013 to 2014. Only 26 percent of e-commerce consumers state price as the reason to go online while 50 percent of the respondents find convenience to be the most important reason. With increasing adoption of mobile devices, the online market will continue to grow at an exponential rate as the majority of the current increase stems from customers shopping from a phone, tablet or similar mobile device.

What do Swedish consumers see as the single most important advantage by shopping online compared to shopping in a physical store?



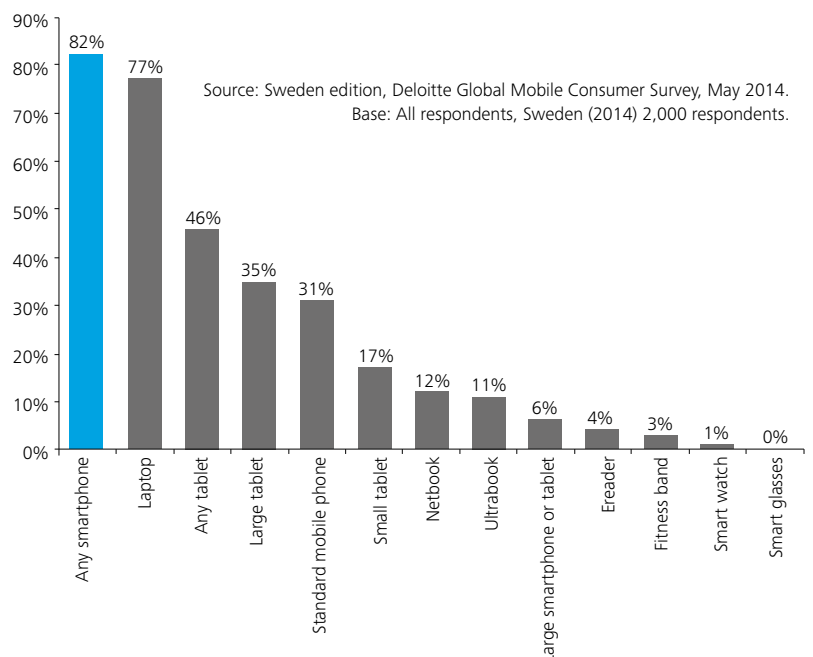
E-commerce turnover Sweden 2010–2015

Values in SEK billions



Note: Data for 2014 and 2015 are forecasted based on historical data.
Source: HUI Research, Svensk Digital Handel, PostNord, 2013.

Adoption of mobile devices in Sweden



Source: Sweden edition, Deloitte Global Mobile Consumer Survey, May 2014.
Base: All respondents, Sweden (2014) 2,000 respondents.

Consumer electronics and fashion are the most important segments in Sweden

In all segments listed below, online sales are increasing at a higher rate than through traditional retail channels. Consumer electronics, which is the segment with highest turnover, continues to grow at a rapid pace and is outgrowing the other segments. The overall e-commerce market currently accounts for approximately 6 percent of Swedish retail sales. Even though the sport and interior segments enjoy low revenues today, in the years ahead these segments will pick up pace and experience high growth.



Omni-channel retailing provides new opportunities

Omni-channel retailing, i.e. combining mobile, bricks-and-mortars and e-tailing, is the future of e-commerce. This requires e-tailers, bricks-and-mortars and bricks-and-clicks (bricks-and-mortars that also have an online presence) to rethink their strategies and to redefine their business models. A single channel is no longer enough, which is why traditional retailers are looking to go online and why e-tailers are looking at various options to establish a physical presence. The challenge is to find a seamless solution for both the customer experience and internal processes.

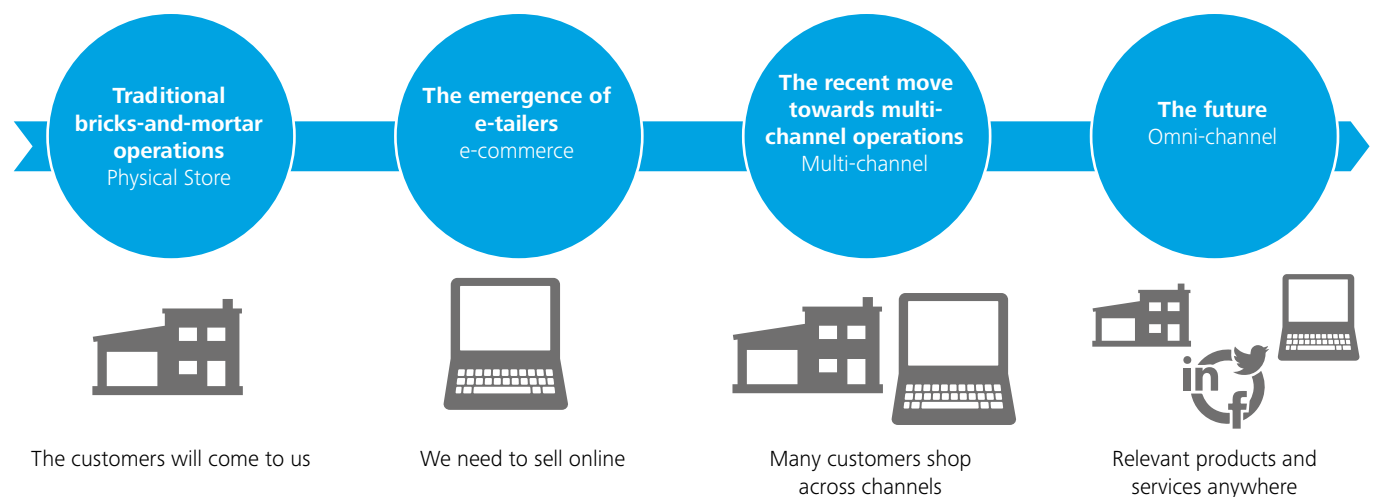
Online channels have for many years been treated as a distinct, separate channel without integration to the overall bricks-and-mortar business model. This is rapidly changing as customers demand information about stock levels, delivery times and shipping options regardless of where within the retailer's network they are situated. Whether the customers are in a physical store, on a computer or on a mobile device, they require the same service levels and access to information throughout the entire shopping experience.

E-commerce is booming and retailers face many challenges and opportunities. The rapid development of the e-commerce industry has led to traditional retailers moving into the online market. Retailers and e-tailers are facing pressure to adapt since a strategy focusing on a single channel may no longer be sufficient to attract the demanding customers of the 21st century.

Conversely, several pure-play e-tailers are evaluating the benefits of adding a physical presence such as showrooms and pop-up stores, either temporary or permanent, to respond to the changing marketplace and to meet growing customer demands.

Succeeding online relies on the ability to design and implement a thorough strategy for how to be present in the channels that customers desire, both now and in the future. Retailers need to invest significant time in planning before executing. It is critical to do it right – if they establish separate, disintegrated channels, it is difficult to move forward. It appears easier for pure e-tailers to develop physical presence than it is for bricks-and-mortar retailers to increase their digital presence.

Omni-channel retailing means being available at any time anywhere, making it convenient for the customer.



Three areas of high attention

Both retailers and e-tailers are facing challenges within the key areas that significantly impact the organization's performance.

E-commerce players, whether it be e-tailers or bricks-and-clicks organizations, are unanimous that there are three main areas requiring specific attention. Based on interviews with senior executives of some of Sweden's leading e-commerce organizations, it is clear that return on marketing spend, the ever changing payment solution landscape, and increased supply chain complexity are the main three areas of concern. These three areas have a large impact on the customer conversion rate as they all impact the customer's purchase decisions.

Omni-channel marketing – pressure to increase marketing effectiveness

- Consumers demand a more personalized shopping experience, making marketing offers based on consumers' shopping behavior important
- The majority of marketing spend is often derived from online marketing where Search Engine Marketing is the largest spend category
- Key Performance Indicators are often lacking to measure the return on investment and even if they exist, return on investment is difficult to measure as the marketing spend can have limited short-term impact, but with a positive impact in the long-run
- Given the ever-changing online world, it is a challenge in itself to know which channels to use to get the highest conversion rate and sales performance

New mobile payment solutions – a key revenue driver

- The adoption of payment processing solutions has traditionally been determined by the retailer's tolerance for costs of the solutions to protect thin margins
- The availability of convenient, mobile payment solutions often decides the customer's purchasing decision – customers want quick, safe and simple payments
- Leading e-tailers are exploiting this emerging trend by developing their own in-house payment solutions to control costs and to increase influence over what can be considered one of the most common reasons for customer rejection

Omni-channel supply chain – the customer rules

- Increased pressure to become agile and lean as customer preferences change very quickly
- Customers demand better service levels, higher availability of the product and faster delivery
- New fulfillment and supply chain strategies have emerged as companies have responded to the changing marketplace by developing alternative solutions
- No one-size-fits-all approach exists and the supply chain strategy should be evaluated and tailored to specific company requirements

Increased marketing effectiveness through omni-channel marketing

Omni-channel marketing is about delivering a more interactive, personalized brand experience that goes beyond siloed behavior and where the consumer is reached through all possible touch points or channels. It is important for both e-tailers and traditional retailers to decide on a marketing strategy specific for their business and products to make sure the marketing goes through the right channels for a specific customer group.

Customers are spending more time on social networks and the Internet than ever before. Traditional marketing, such as print and tv commercials, is therefore decreasing in favor of online marketing, but we also see a trend where e-tailers are trying to get awareness from print and tv, something that is derived from the urge to try something new and to diversify the marketing spend to multiple channels.

The majority of marketing spend today is on Search Engine Marketing (SEM). In Western Europe, spend on SEM is expected to reach 20 billion euro in 2016 – an increase of 99.6 percent from 2011!

E-commerce players believe SEM is the most important channel and it is also where they invest the most money. Customers also state that search engines are the most important source when purchasing online, followed by comparison sites and recommendations from friends and family.

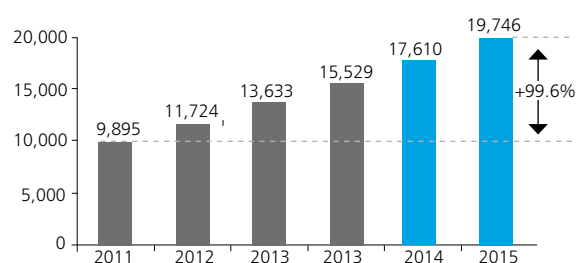
To succeed in e-commerce, it is important to be top-of-mind among customers. Marketing should therefore be considered as an investment. However, it is crucial to spend the marketing budget on channels that positively impact brand recognition and sales both in the short-term and long-term.

Search Engine Advertising (SEA) spending significant higher than Search Engine Optimization (SEO) spending. Values in euro millions

	2011	2012	2013	2014	2015	2016
SEA spending	8,897	10,611	12,350	14,018	15,831	17,665
SEO spending	998	1,113	1,283	1,511	1,779	2,081
Total	9,895	11,724	13,633	15,529	17,610	19,746

Note: Data for 2014–2016 are based on historical data.
Source: Forrester, 2013.

In Western Europe, spend on SEM is expected to reach ~ 20 billion euro in 2016 – an increase of 99.6 percent from 2011. Values in euro millions



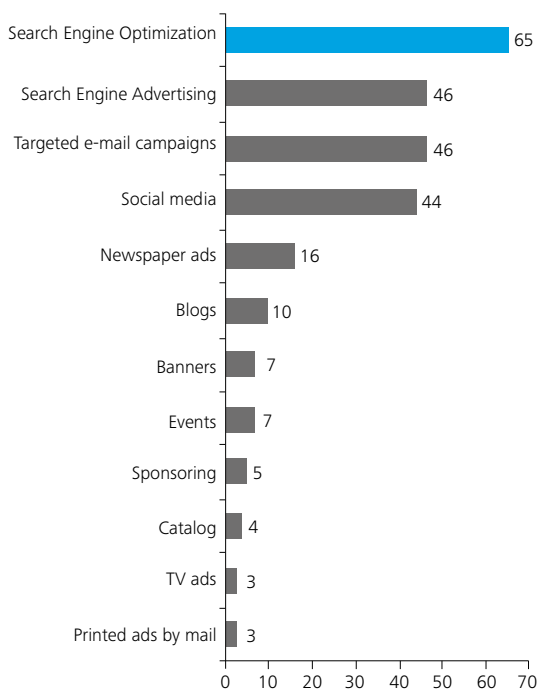
The marketing challenge for retailers is to increase effectiveness and optimize conversion rates through multiple channels, while providing a personalized shopping experience.



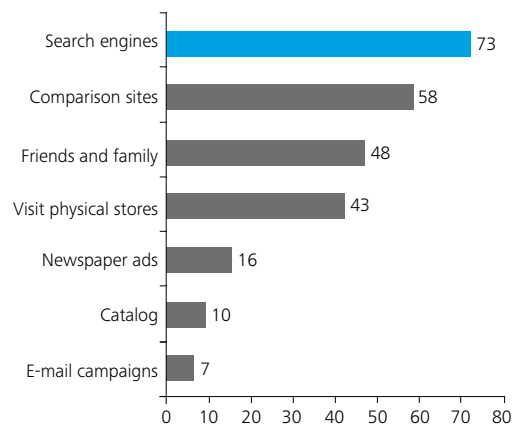
What does the market say?

Customers and e-commerce companies are largely in agreement in terms of the most important marketing channels.

What channels are most important for your company when marketing your products? Values in percentages



What channels are most important to you as a customer when shopping online? Values in percentages





Search Engine Optimization (SEO)

65 percent of e-tailers and bricks-and-clicks state that SEO is an important component of their marketing strategy. SEO is organic marketing and consists of optimizing website content to achieve a higher ranking in search engine results pages by finding the right key words.



Search Engine Advertising (SEA)

SEA continues to be the driving force for e-commerce organizations. By SEA, we mean purchased online marketing such as key words, Google shopping and pay-per-click. 46 percent of e-tailers rate SEA as important in their marketing strategy.



Targeted e-mail campaigns

Targeted e-mail campaigns are a cost-effective way to reach new and existing customers with personalized content. 46 percent of e-tailers rate targeted e-mail campaigns as important in their marketing strategy.



Social media marketing

44 percent of e-tailers rate social media as important in their marketing strategy. Facebook is the primary media because it is relatively easy to target specific customer groups. Facebook is also important to create a buzz and word-of-mouth around a brand or a product.

Observations from the Swedish online market

- E-tailers are moving to diversify their marketing spend by shifting back from mostly online marketing to traditional marketing channels such as print and TV
- Conversely, retailers that have traditionally focused on off-line channels are moving towards online channels
- Marketing costs can be up to 40 percent of total costs

Key opportunities to drive sales performance through marketing

- Be where your customers are - active management of multiple channels is driving sales while effective paid traffic over time will drive free organic traffic
- View marketing as an investment to become top-of-mind and increase brand awareness
- Invest in marketing automation, i.e. systems with which to follow the customers' purchasing behavior

95%

of users consider sites found through search engines as the leaders in their market field



90%

of users find new sites through search engines



80%

of search engine users don't browse results deeper than the first two pages



80%

of Internet users browse search engines every day



75%

of online purchases and orders are made on websites found through search engines



Given the fast emergence of the e-commerce industry, many e-tailers are considered to be at the entry level or developing in the search engine marketing area.

Measuring marketing effectiveness based on marketing costs incurred can be difficult because high marketing costs do not always indicate ineffectiveness. High marketing costs could be seen as an investment, especially at the entry level where they can generate more organic marketing further on. Marketing benchmarks can also be different within different industries and also between companies of different sizes.

How can your organization take the next step?

	Entry level Functionality does not exist	Developing Basic functionality exists	Performing Advanced functionality exists	Leading Industry leader
SEM Capabilities	<ul style="list-style-type: none"> No defined strategy exists for search engine marketing Limited knowledge of what data and KPIs are necessary to capture to measure ROI Search engine marketing is performed on an ad-hoc basis with no real target in terms of conversion rates, site visits, etc. 	<ul style="list-style-type: none"> An online marketing program exists that focuses on parts of the search engine marketing through segregated channels Basic metrics are tracked but are not used as business intelligence for decision making Ability to track site conversion rates and customer acquisition cost to follow up on and improve marketing effectiveness 	<ul style="list-style-type: none"> The existing online marketing strategy is well functioning and is measured against industry peers through benchmarking and KPIs Key metrics including cost per sale, ROI, site conversion rates are measured Some technologies and tools exist to automate search engine marketing efforts 	<ul style="list-style-type: none"> The company's online marketing strategy has revolutionized the industry and positioned the company as an industry leader Technologies are in place and consistently utilized across multiple channels for search engine optimization, pay-per-click, etc. Customer data is utilized to optimize and tailor marketing
Key questions to answer	<ul style="list-style-type: none"> What should the marketing strategy look like? How do we determine the effectiveness of marketing spend? What is our target to achieve for each marketing channel? 	<ul style="list-style-type: none"> How can our digital and multi-channel marketing plan be improved and executed? How can information be used to evaluate marketing performance? What processes need to be coordinated between channels (e.g. content, messaging, URL on TV ads)? 	<ul style="list-style-type: none"> How should a single view of the customer database be built (e.g. link between existing databases)? How can we use customer data to further target and personalize our marketing? 	<ul style="list-style-type: none"> How can we stay ahead of the market? What is the next big innovative idea?

Marketing Benchmarks*

	Entry level	Developing and performing	Leading
Marketing cost	40%	12%	8%
Customer acquisition cost (SEK)	500	300	100
Site conversion rate	0.06%	2.3%	4%
Shopping cart abandonment rate	92%	54%	27%

Note: Although E-tailer Key Performance Indicators are good guidelines, these should be viewed in the light of the industry you are in.

Need for convenient and secure payment solutions

The explosion of the e-commerce market has resulted in significant development when it comes to online payment solutions. Multiple payment solutions have existed within the e-commerce market for a while but it is not until recently that the area has truly become an important consideration to drive sales across the various channels. Online customers expect multiple payment options, which challenges e-tailers and bricks-and-clicks to offer the right mix of payment solutions.

An optimal setup and mix of payment solutions can be a key revenue driver while reducing payment processing costs.

Furthermore, omni-channel customers are demanding convenient and customer-oriented payment solutions that can process transactions securely. As a result, a number of innovative payment solutions have emerged in the marketplace, some of which have yet to truly make their mark, and others that have been widely adopted. Traditional challenges regarding security, trust, and ease of use are being overcome by enhancements in technologies and more user-friendly software, together with a high smartphone penetration rate. The payment landscape is rapidly changing.

Keeping up with the industry – new solutions are emerging to respond to the demands of the omni-channel customer.

The number of merchants accepting credit cards and digital payments has reached an all-time high as customers are getting more and more comfortable using their smartphone, tablet and other mobile devices for online purchases. Emerging mobile payment solutions, such as Apple Pay, AliPay and Google Wallet, are expected to continue to reinvent the payment market within the near future.

Adoption of mobile payments as customers are looking for increased convenience

The fastest growth in payment processing comes unsurprisingly from mobile payments made through a smartphone, a tablet or similar mobile device. The largest drivers behind mobile payments are the increasing rate of adoption of mobile devices as well as customers' desire for convenience. Customers, as stated earlier, appreciate the ability to shop whenever and wherever they want. Mobile payment solutions are also becoming important for retailers who can easily connect their mobile device to a payment terminal to process the transaction.

Evaluation of in-house vs outsourced solutions to reduce costs and increase profitability

An emerging trend is to manage parts of the payments processing in-house. In-house solutions can be used by those retailers that offer invoice solutions (which is more or less all) if they decide to take on credit risk, otherwise third party payment providers can take on the risk. By managing customer invoicing in-house, the e-commerce player can keep the entire revenue from the sale instead of giving up a percentage of each transaction to a third party payment provider. Another advantage of managing invoicing in-house is that the organization itself can determine the credit risk it wants to assume, which can reduce customer rejection rates to increase sales. The risks and benefits of in-house vs outsourced customer invoicing must be carefully evaluated.

45%

of smartphones owners
are making purchases
using a mobile device
every month



Technology advances make new payment solutions cost-effective

Technology advances such as Near Field Communication technology are offering further opportunities within the payment solutions area. They increase ease of use for both merchants and consumers and the technology allows the consumer to make faster and easier payments compared to other point-of-sales systems. New technologies also offer cost-effective alternatives to those that previously existed.

Payments enabled by the cloud

Business systems are moving into the cloud. This is likely to continue and expand into payment apps and point-of-sale systems as well as it offers great convenience to the customer. This will again have a big impact on e-commerce providers as it opens up for new, scalable solutions.

Security is still the number one priority

Let's not forget about security – the backbone of all payment solutions. Without secure payment solutions, customers will not engage with the business. New technologies and payment solutions must keep up with the rapid pace of the e-commerce industry in order to be sustainable for the long-term.

Observations from the Swedish online market

- Transactions in Sweden are often completed using bank cards and invoices
- Outside of Sweden, PayPal and other similar online payment services are common
- Almost 50 percent of customers prefer payment through invoice – as they can hold the payment until the product is received, inspected and accepted
- E-tailers are better at optimizing payment solutions than traditional retailers
- Payment processing costs can be up to 5 percent per transaction, decreasing already tight margins for e-commerce players

Key opportunities to optimize the payment portfolio

- Negotiate credit terms with the payment solution providers to bring down costs
- Implement multiple payment solutions to increase flexibility for customers
- Evaluate how you can make payment options a revenue driver
- Review your current spend on payment solutions and evaluate profitability of establishing your own invoicing solution

Right payment solutions key to sales and profitability

Measuring an organization's maturity in terms of payment processing solutions has shifted from a cost perspective to the available mix of the payment solutions that customers demand. Having the right payment solutions in place is critical to drive sales. It is common for customers to drop their purchase and leave the site if the payment processing is cumbersome or if there is a lack of payment options. Any costs associated with payment solutions must be evaluated in relation to how they impact conversion rates, and ultimately sales.

How can your organization take the next step?

	Entry level Functionality does not exist	Developing Basic functionality exists	Performing Advanced functionality exists	Leading Industry leader
Payment capabilities	<ul style="list-style-type: none"> No defined strategy for payment solutions and processing exists A single payment type available for the customers 	<ul style="list-style-type: none"> Payment solutions are decided upon based on the associated costs Several payment options are available to customers Basic costs related to payment processing are tracked Regular negotiations 	<ul style="list-style-type: none"> Well thought out payment solutions with positive customer impact – payment solutions are determined upon based on customer desires Customers can purchase, receive, and then pay the invoice after inspection of the product Framework of KPIs and cost benchmarks are maintained – contracts negotiated with payment solution providers 	<ul style="list-style-type: none"> Customer focused and optimized from a cost perspective Supports all major payment types Terms are carefully negotiated with the payment solution providers regularly Site provides customer with a breakdown of order costs (shipping costs, order summary, VAT, etc.)
Key questions to answer	<ul style="list-style-type: none"> What payment options are available? How much do we spend on payment processing? 	<ul style="list-style-type: none"> What payment options do our customers desire? How can we increase customer value by having additional payment options? 	<ul style="list-style-type: none"> How can we optimize our spend on payment solutions and processing? Are there additional payment solutions that would further enhance customer experience and increase sales? 	<ul style="list-style-type: none"> How can we stay ahead of the market?

Payment Benchmarks*

	Entry level	Developing and performing	Leading
Transaction cost (percentage of turnover)	4.1%	1.4%	0.9%

Note: Although E-tailer Key Performance Indicators are good guidelines, these should be viewed in the light of the industry you are in. What is relevant for a fashion e-tailer might not look the same for a player in the interior segment.

*See page 22 for further details.

The supply chain is changing the game



Shifting supply chain fundamentals – align to customer expectation

The supply chain is the backbone of e-commerce operations and its design is of critical importance. The setup and execution of the supply chain will drive the customer experience. A well-functioning supply chain, with optimized warehousing and distribution operations, ensures that your organization can deliver on its promises and will prove a vital factor in the management of the constant challenge related to returns, which is a significant cost driver.

Traditionally, supply chain management has been viewed as a key enabler to profitability and long term success, and more specifically about achieving internal efficiencies, speeding up deliveries and reducing costs. While this is challenging on its own, the omni-channel customers of the 21st century demand even more – they expect their product delivered whenever and wherever they wish. To stay competitive, you need to adjust and offer customers the exact kind of delivery they want. In other words: you need to re-think order fulfillment and logistics operations to meet the demands of the omni-channel customer.

Omni-channel fulfillment must break down the barriers between the various channels to meet the increased complexity of orders coming from bricks-and-mortars, showrooms, online channels, and mobile among others.

E-commerce organizations need to look beyond traditional fulfillment strategies such as make-to-stock, make-to-forecast and make-to-order – the game is changing, and so should you, or you will be left behind.

The customer should determine which delivery option you offer – it is the customer's world. You need to listen and pro-actively adapt to the customer's expectations of fulfillment and delivery options. Understanding the customer is critical to deciding the optimal strategy. While each delivery alternative has its advantages, there is no one model that fits all.

Customer-driven delivery and return strategies

Drop-shipping

Drop-shipping, where a customer order triggers a shipment from a third party logistics provider (3PL), is theoretically an effective way for e-tailers to reduce inventory holding costs and warehouse space. Less inventory on hand means that capital is freed up for other investments. However, in reality, drop-shipping is not applicable in all industry segments. In fashion, where customers order several products by several brands, drop-shipping would mean multiple deliveries to the client from the various suppliers – this does not sit well with increasingly demanding customers who expect one delivery, when and where they want it. However, in the furniture segment, drop-shipping is a great option even though it can mean lower margins as the 3PL builds inventory holding costs into the price.

Click-and-collect

Click-and-collect is increasingly being asked for by customers in Sweden, and globally. The customer purchases items online and then has the option to pick them up at a bricks-and-mortar location. 7 out of 10 e-tailers want to use it, but even though it seems easy in theory, click-and-collect is a challenging strategy to implement. In theory, the customer places an order with a retailer who delivers, or uses a supplier to deliver, the product to the retailer's physical location of the customer's choice. Click-and-collect gives customers flexibility and control over their purchase because they are able to choose a convenient location from which to pick up their item.

The main challenge of click-and-collect is to make the process a seamless solution, both for the retailer and the customer. A strategy must be developed around the product assortment. Will the customer for example be able to choose from the total assortment or only specific bricks-and-mortars assortments to keep down delivery costs to the retail location? To augment the customer experience and drive sales, the click-and-collect process needs to be part of the store routines. Today, as retailers operate with sub-optimized click-and-collect processes, the customer often has to go to the back of the store to pick up the item, in a brown box from warehouse staff. Then the customer still has to wait in line at the regular check-out – not exactly a seamless solution – and not something that customers will accept.

Reserve-and-collect

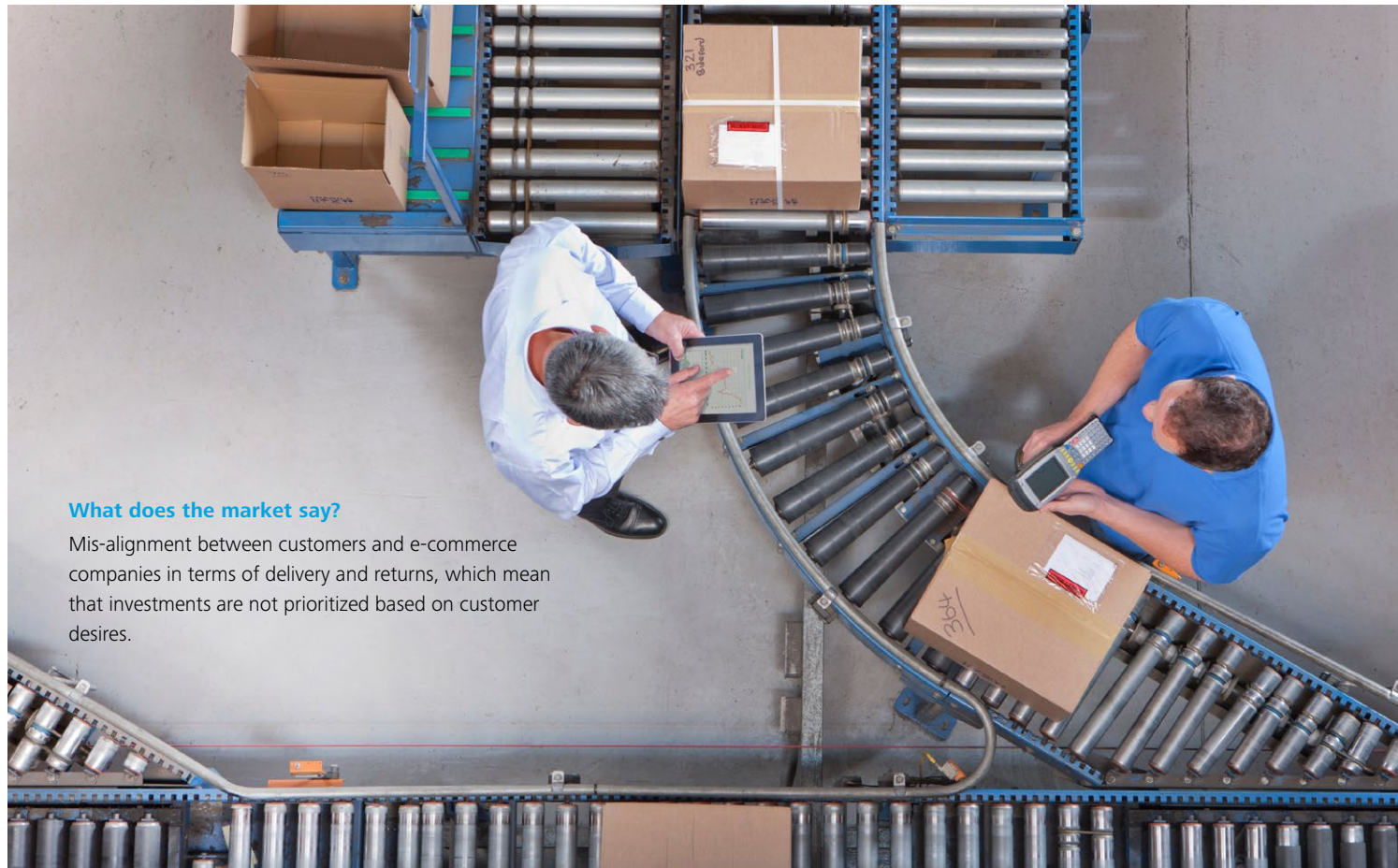
Reserve-and-collect is an option similar to click-and-collect, which allows for checkout to occur after the customer views the item(s) in person. The customer reserves an item online and picks it up later and pays for it at a physical store. This does not change the fundamentals of the supply chain, but requires bricks-and-mortar retailers to have an organized inventory managed by a strong order management system.

Delivery lockers

Delivery lockers are placed in convenient locations such as train stations and grocery stores and are only possible to open using a code given to the customer in connection with a purchase online. It is convenient for the customers as they are also able to return items using the lockers. The downside of lockers is that they are not very dynamic and this may be a challenge during periods of high sales.

Same day delivery

Today more and more customers require fast delivery and being able to provide a same day delivery offers a great competitive advantage. Same day delivery as a fulfillment strategy means the item ordered is in stock in a bricks-and-mortar store or a warehouse that is located close to a major city, and is delivered the same day to the customer by a delivery firm typically using bicycles or scooters. This form of delivery is challenging outside of larger cities and only applicable to some industries.



What does the market say?

Mis-alignment between customers and e-commerce companies in terms of delivery and returns, which mean that investments are not prioritized based on customer desires.

How important is the availability of delivery options to you?

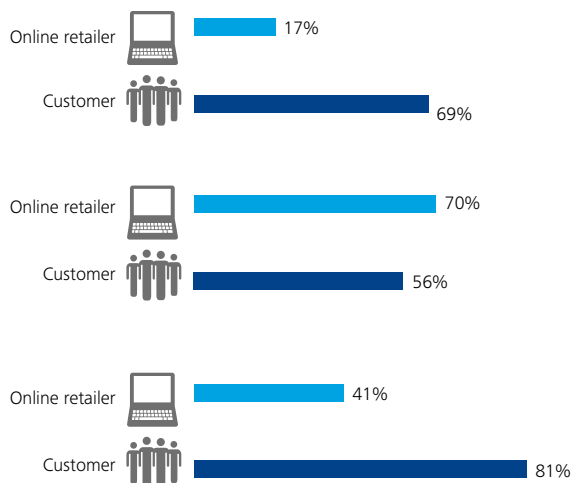
How important is the availability of delivery/pick-up options to you?

How important is it to you to be able to deliver to the customer within 3 days?

How important is it to you to be able to get the delivery within 3 days?

How important is it to you to have clear instructions about return policies?

How important is it to you to have clear instructions about return policies?



Supply chain observations in the Swedish market

- Customers expect deliveries whenever and wherever they want
- Multiple delivery options are no longer a luxury, they are a necessity
- Returns management requires a clear strategy and generous return policies can be leveraged to gain a competitive advantage

Key opportunities to drive sales performance through the supply chain

- Seamless integration between various channels will be critical to meet customer expectations
- E-commerce players need to tailor their solutions to customer expectations
- Continue to invest in alternative delivery options to accommodate demanding customers
- Optimize returns management through physical and online channels

A robust order management system for seamless channel integration

The shifting supply chain fundamentals and emerging fulfillment strategies increase the importance of an enterprise-wide system for inventory visibility that breaks down barriers and fully integrates the channels with each other to create an omni-channel experience.

An omni-channel world where the customer simultaneously interacts and moves between physical and digital channels, requires a robust Order Management System (OMS).

The role of the OMS is becoming increasingly important as it is at the core of e-commerce operations to make integration between the order and delivery channels seamless. The OMS is not only processing orders, but also providing intelligence and visibility surrounding inventory, delivery options as well as customer information.

To be able to offer all delivery options the customer is demanding, it is crucial to have an up-to-date OMS backing up the business.

The OMS shares the information about the order throughout the entire order cycle – all the way from the point of order to the final delivery. It provides the organization with real-time information at all times, regardless of delivery channel or point of order.

Benefits of an omni-channel OMS

Distributed order management: The OMS provides functionality to assist with order routing, returns management, order splitting, tax calculations, payment processing, partial shipments and order exception management, which are all critical components for e-tailers.

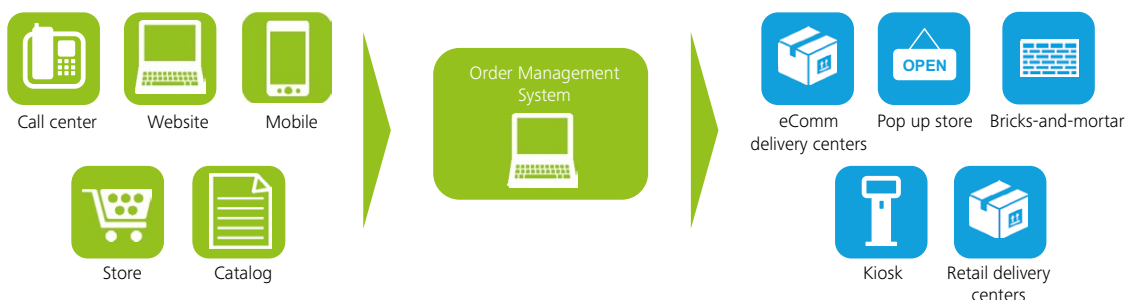
The need for an enterprise-wide system that constantly provides real-time, accurate information about stock-levels, in-transit inventory, and specific information about the order has never been bigger given that customers order through multiple channels and through multiple locations.

– CEO, Swedish e-commerce company

Single view of inventory: Perhaps the most critical function delivered by the OMS is inventory visibility. The OMS provides real-time information about the available inventory across the organization, regardless of which channels are accessed. If configured optimally, the OMS can include inventory information about store inventory, drop-ship vendors, internal delivery centers, in-transit inventory and allocated stock.

Store fulfillment: Store fulfillment is important for e-tailers that also operate with physical stores. An OMS provides functionality surrounding shipping from stores, store pickup, and click-and-collect.

Customer service: The OMS is an effective way to increase customer service as it provides information about order details, order capture and refunds/credits to name a few.



Generous return policies give happy customers but higher costs

Returns are costly for e-tailers in terms of transportation, handling and warehousing costs and account for up to 40 percent of all goods in some industries.

Given the high costs associated with returns they continue to be a challenge within the e-commerce industry. Customers expect generous return policies. Customers also expect longer free return periods for products bought online as they serve as the changing room for e-commerce customers. The increasingly demanding omni-channel customer also expects to be able to return an item wherever they like – all to increase convenience.

A generous return policy has become a key competitive advantage and a critical component of the customer offering. It is clear that a generous return policy drives sales, however, it is also a major cost driver. Those e-tailers and bricks-and-clicks that crack the code of offering a generous policy that drives additional sales, while optimizing the costs of returns management, will be the leaders in the marketplace. You should review your strategy as it can largely contribute to increased revenues or, conversely, erode profits if not properly executed.

Transportation costs for returns remain a key returns-related issue for e-tailers

Increased transportation costs remain a key issue e-tailers are experiencing related to returns. Transportation costs for returns represent a large expense as both outbound and inbound transportation costs increase as a result of returns.

Suppliers' pre-negotiated agreements for returns are often similar to those of the outbound shipping agreement – the organization pays similar rates for the return as they do for the outgoing shipment.

Significant cost savings can be achieved by decreasing the amount of returns that are due to poor information or pictures of the products online, not meeting delivery criteria (On Time - In Full), defective items, wrong item delivered or other quality issues.

Handling costs for returns

Another opportunity is to reduce the handling costs as a result of high return rates. Handling costs for returns are high as warehouse staff spend significant time handling returns (i.e. to process, receive, inspect, authorize, put away, or dispose of the returns).

Add that the omni-channel customer expects to be allowed to return the item whenever and wherever they want and improvement in the handling and integration of returns through the various channels (i.e. in physical store) presents yet another opportunity for e-commerce players.

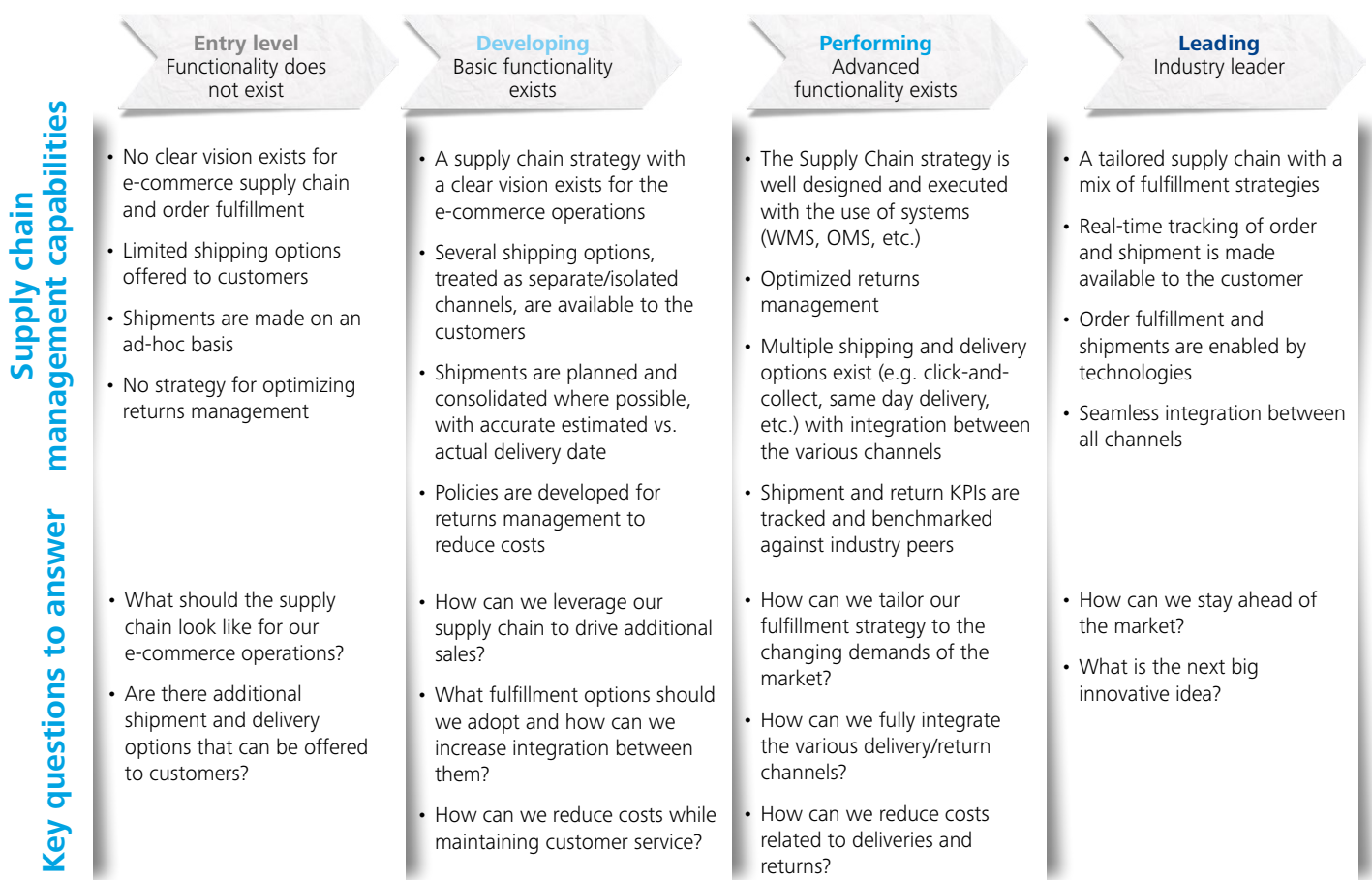
Warehouse costs for returns

Returns are often received, inspected, and put away in a separate flow and thus not mixed with supplier deliveries. Significant space in the warehouse is allocated to returns. With fewer returns, this area could be optimized and used for value added activities. Areas allocated to returns tend to be less organized with poor control over inventory. Again, an opportunity exists to optimize returns management in the warehouse.

Successful e-commerce demands customer-driven supply chains

Supply chain performance continues to be measured largely by numbers. However, as the customers expect deliveries anywhere at any time, it is becoming difficult to evaluate performance purely from a numbers perspective. Increased availability of various delivery options are driving costs of the supply chain and require a larger degree of integration between the various channels.

How can your organization take the next step?



Supply Chain Benchmarks*

	Entry level	Developing and performing	Leading
Returns as percentage of items	50%	11%	2%
Return cost as percentage of revenues	48%	10%	2%
Shipment cost	20%	7%	5%
Fulfillment cost per order (SEK)	83	45	32
Trade inventory days	280	50	0

Note: Although E-tailer Key Performance Indicators are good guidelines, they should be viewed in the light of the industry you are in. What is relevant for a fashion e-tailer might not look the same for a player in the interior segment.

*See page 22 for further details.

Become the leader of tomorrow



Given the recent trends and developments in the ever changing marketplace, with the omni-channel customers pushing to remove boundaries between physical and online channels, your organization has a tremendous opportunity to take action and become the leader of tomorrow.

It is clear that top-line growth continues to be the main objective for many e-commerce players. To continue to grow with the market, or in an ideal situation, outgrow the market, there are immediate actions that a retailer can take. These actions will also lead to long term profitability which continues to be a challenge in the e-commerce marketplace.

To become or keep your position as a leader of tomorrow, your organization should review operations from a three-lenses-perspective: 1) increasing marketing effectiveness, 2) increasing conversion rates through a large availability of convenient online shopping and secure payment solutions, and 3) moving to a fully

integrated, customer-oriented supply chain that meets the omni-channel customers' expectation of being able to receive and return goods whenever and wherever they want.

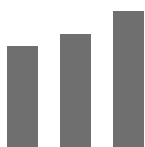
By analyzing your organization within these three areas, you can improve customer service, while optimizing profitability. By not adjusting to the new customer expectations, there is a great risk that the demanding omni-channel customers will buy the products from another retailer.

An offering with separated, isolated channels with limited visibility across the various channels is no longer sufficient. Customers of the 21st century demand accurate information in real time, no matter which channel they are accessing or where in your network they are situated. Whether in a physical store, on a computer or a mobile device, customers require the same high service levels at all times throughout the entire shopping experience.

Assess performance, identify areas of improvement and develop a plan for a target state – take action now to optimize your operational model.

Initiate your journey to success – Assess where you are today and develop a plan for the future

How do you compare today?



Identify and prioritize areas of opportunity



Start your journey to become the leader of tomorrow



Benchmarks

E-tailer Key Performance Indicator (KPI)*	Entry Level	Average	Leading
Operational			
Gross margin	15%	30%	45%
Revenue growth	-5%	15%	32%
Repeat customer rate	17%	27%	52%
Percentage of sales on repeat customers	24%	41%	59%
Average order value (AOV) (SEK)	150	750	9,300
AOV repeat customers (SEK)	210	1,300	9,500
Operating margin	-3%	3%	6%
Marketing			
Marketing cost**	40%	12%	8%
Site conversion rate	0.06%	2.3%	4.0%
Shopping cart abandonment rate	92%	54%	27%
Total payment solution and processing costs			
Transaction cost as percentage of turnover	4.1%	1.4%	0.9%
Supply chain and fulfillment			
Fulfillment cost per order (SEK)	83	45	32
Customer service cost per order (SEK)	46	32	18
Labor cost***	18%	12%	9%
Warehouse cost****	3%	0.8%	0.4%
Turnover per m ² warehouse	8,000	35,400	52,300
Trade inventory days	280	50	0
Shipment cost	20%	7%	5%
Return cost as percentage of revenues	48%	10%	2%
Returns as percentage of items	50%	11%	2%

*Benchmarks are based on e-tailers in a variety of industries, hence some benchmarks have a significant spread between entry level performers and leading performers.

**Marketing cost performance must be viewed in the light of company strategy, and the effect of marketing output. Marketing spend per se is thus not a performance indicator on its own.

***All labor.

****Facilities and related fixed costs.

Glossary	
Omni-channel	Marketing, delivery and payment through multiple channels and connected to each other
E-tailer	Strict online store
Bricks-and-clicks	Retailer with a physical store who has an online store
Bricks-and-mortar	Physical store
SEM	Search Engine Marketing
SEA	Search Engine Advertising
SEO	Search Engine Optimization
3PL	Third party logistics provider
OMS	Order Management System

Contacts

Please contact us for additional information about our perspectives as well as our expertise within e-commerce and omni-channel retailing.



Conny Ternstrand

Strategy & Operations Senior Manager
Phone: +46 70 080 33 11
Email: conny.ternstrand@deloitte.se

- Conny leads Deloitte's Strategy & Operations practice in Sweden
- He has extensive experience of Consumer Business, Retail and Supply Chain Management



Niklas Virta

Strategy & Operations Senior Consultant
Phone: +46 70 080 31 84
Email: niklas.virta@deloitte.se

- He is focusing on Consumer Business and Retail within Deloitte's Strategy & Operations practice in Sweden



Erik Selldin

Strategy & Operations Senior Manager
Phone: +46 70 080 20 71
Email: erik.selldin@deloitte.se

- Erik leads the Operations team within Deloitte's Strategy & Operations practice in Sweden
- He has extensive experience of Consumer Business, Retail and Supply Chain Management



Sanna Linder

Strategy & Operations Consultant
Phone: +46 70 080 25 14
Email: sanna.linder@deloitte.se

- She is focusing on Consumer Business and Retail within Deloitte's Strategy & Operations practice in Sweden

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, tax, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte’s more than 210,000 professionals are committed to becoming the standard of excellence.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte network”) is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.